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No. 06-326

IN THE

Supreme Court of the United States

PHILLIP JACKSON and
PMJ FAMILY LIMITED PARTNERSHIP,

Petitioners,

v.

GLENAYRE ELECTRONICS, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF IN OPPOSITION

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COUNTERSTATEMENT OF QUESTIONS PRESENTED

1. Whether a manufacturer who has fully paid a judgment for direct patent infringement based on the manufacture and sale of an infringing device, can face a second trial for indirect patent infringement based on the same manufacturing and sales activity adjudicated in the first trial.

2. Whether a patentee who accepted without appeal a remittitur after a first trial in which the issue of customer usage was litigated can now collaterally attack the damage award by claiming that full compensation for customer usage was not received in the first trial.

3. Whether the Federal Circuit erred in affirming the District Court's interpretation of its own remittitur order, which held that the remitted award encompassed all of the manufacturer's liability for the infringing manufacture and sale of the patented device.

CORPORATE DISCLOSURE STATEMENT PURSUANT TO SUPREME COURT RULE 29.6

Respondent Glenayre Electronics, Inc. is a wholly owned subsidiary of Glenayre Technologies, Inc., a publicly traded company.

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COUNTERSTATEMENT OF THE CASE

Petitioners, Phillip Jackson and PMJ Family Limited Partnership ("Jackson"), ask this Court to grant certiorari ("Jackson's Petition") to correct what he claims was an erroneous application of Supreme Court precedent by the Federal Circuit when reviewing a District Court interpretation of its prior remittitur order. The use of this Court's supervisory power over such a fact specific issue is not warranted. The Federal Circuit and District Court decisions at issue neither decided an important federal question nor created any conflict in the existing law. At best, Jackson's petition alleges these two courts erroneously applied settled law to the unique facts of his case, which does not make this a significant case worthy of the grant of certiorari.

Even Jackson's claims of error can be readily dismissed as he ignores a critical fact. Jackson has litigated and collected a substantial judgment against Respondent, Glenayre Electronics, Inc. ("Glenayre") based on the identical manufacturing and sales activity which he alleges mandates a second trial. As the Federal Circuit Opinion aptly summarized, "the problem here boils down to the fact that Jackson accepted the District Court's remittitur, which rejected the same arguments he makes here, that a jury should award damages based on evidence showing the benefits of Glenayre's customers' infringing use of Glenayre's products." (Opinion, Appendix to Jackson's Petition ("Appendix") at 25a). Jackson's petition should be rejected as it raises an issue he already litigated, lost, did not appeal, and for which he has been fully paid.

A. Glenayre Initiates District Court Proceedings

In reaction to a series of patent infringement lawsuits brought against its telephone service provider customers, on January 10, 2002, Glenayre filed a declaratory judgment action against Jackson. Glenayre's lawsuit sought to resolve in one forum whether Glenayre's MVP voicemail server system sold to those customers infringed Jackson's patent for processing touch tone phone signals. Jackson initially filed a counterclaim against Glenayre alleging only contributory and inducement infringement.

After filing suit, Glenayre moved to stay the pending customer suits citing the customer suit exception to the first to file rule. Glenayre pointed out that, if Jackson were to prevail in his damage claim against Glenayre, all issues as to customer liability would be resolved because an implied license covering Glenayre's product would be created protecting Glenayre's customers from further exposure. On June 25, 2002, the District Court granted the motion finding that Glenayre was entitled to stay the suits against its customers while the issue of infringement by Glenayre's MVP system was resolved.

B. Jackson's First Appeal

Jackson then filed an interlocutory appeal of this stay order in the Federal Circuit. During that first appeal, Jackson contended that the pending action between Glenayre and Jackson would not resolve all damage issues between Jackson and Glenayre's customers. Jackson also contended that the only way he could fully recover for customers' infringement of his patent would be to pursue litigation directly against those customers. Shortly after Jackson obtained a $12,000,000 jury verdict against Glenayre in April 2003, however, he withdrew this first interlocutory appeal.

Thus, Jackson has already previously appealed the issue of whether a suit seeking damages for customer use of a device is barred when a suit seeking damages for the manufacture of that same device is pending.

C. Jackson Pursues Discovery on Customer Usage

During pretrial discovery in the declaratory judgment action brought by Glenayre, Jackson pursued discovery about customers' usage of Glenayre's product. Even though the District Court had stayed the customer suits, Jackson argued that he was entitled to subpoena customers for information about their voicemail usage and profits because he alleged a reasonable royalty could be based on the benefits to Glenayre's customers from using Glenayre's product. Glenayre resisted that request pointing out again that a recovery against a manufacturer and seller operates as an implied license to the purchaser and thus customer usage was not a proper basis for recovery. On September 27, 2002, the District Court agreed with Glenayre and denied Jackson's request to subpoena customer records.

As a part of this same order, the District Court sua sponte stayed Jackson's contributory and inducement counterclaims against Glenayre. The District Court's rationale was that, since Glenayre's indirect liability was predicated on direct liability being established against Glenayre's customers and since those customer suits had been stayed, Jackson's indirect counterclaims could not then proceed.

After this ruling, on October 11, 2002, Jackson decided to amend his counterclaim to add a direct infringement claim against Glenayre. The case thus proceeded to trial on the theory that Glenayre was a direct infringer. In making this

decision, Jackson fully understood, because Glenayre had pointed it out several times, that a judgment against Glenayre as a direct infringer would result in the creation of an implied license for all of Glenayre's customers who used the MVP product. Thus, Jackson also fully understood that prevailing on his direct infringement claim would bar later claims against Glenayre's "licensed" customers.

D. Jackson's First Trial

Undeterred by the District Court's earlier rulings about customer usage, Jackson's damage expert based his damage opinion on his estimate of the value of Jackson's patent to Glenayre's customers. The District Court granted Glenayre's motion in limine to exclude Jackson's damage expert, finding his opinions were based on shoddy methodology and manifestly erroneous assumptions.

During trial, Jackson persisted with the customer use damage theory and introduced evidence about voice mail usage by MVP customers as part of the reasonable royalty measure of damages under the *Georgia Pacific* test. *See Georgia Pacific v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970). Jackson's counsel then argued during closing that Glenayre's customers using Glenayre's product had received $250,000,000 in revenue from voice mail services and that the jury should apply a 5% royalty to that figure. The jury apparently agreed with this suggested methodology and awarded Jackson $12,000,000 in damages.

Thus, the verdict in the first trial was based on damages flowing from Glenayre's customers' use of Glenayre's MVP product.

E. Post-trial Proceedings

Glenayre pursued several post trial motions including a request that the damage award be reduced. In response, Jackson, reiterating his closing argument, pointed out that the large damage award was justified because Glenayre customers used the MVP product to generate substantial revenue for themselves.

The District Court Remittitur Order on July 8, 2003, explicitly rejected Jackson's damage calculation about customer usage and found that the most Jackson was entitled to recover from Glenayre was $2,650,000 which was calculated based on a 6% royalty applied to Glenayre's sales of $40,000,000. On July 22, 2003, Jackson agreed with the District Court assessment of damages and accepted the remittitur amount. Jackson thereafter did not pursue an appeal of any of the District Court's rulings on the appropriate measure of damages, and specifically did not appeal the District Court's rejection of his customer usage damage theory.

F. Glenayre's Appeal

Glenayre then appealed several issues to the Federal Circuit, including the appropriateness of the remitted damage amount. During Glenayre's appeal, Jackson argued that the District Court remittitur decision had properly applied the "maximum recovery rule" and thus admitted that the $2,650,000 award represented the maximum amount recoverable by him. The Federal Circuit denied Glenayre's appeal in a per curiam affirmance on April 8, 2004.

G. Jackson Abandons Customer Suits

After Glenayre's appeal of the first trial was concluded in Jackson's favor, Jackson collected $2,650,000 plus post judgment interest from Glenayre in full satisfaction on the judgment from the first trial. Prior to collecting this judgment, however, Jackson dismissed all pending customer suits. Jackson dismissed these suits because after the first trial, another District Court had found clear and convincing evidence that Jackson's patent was invalid as it was procurred by inequitable conduct. (Joint Appendix filed Jan. 10, 2005 before the Federal Circuit at A05370). Moreover, Jackson could not then bring any new suits against customers for two reasons. First, Jackson's patent expired on June 24, 2003. Second, Jackson had not marked licensed products with the patent number, and therefore, under 35 U.S.C. § 287, could not recover damages for any presuit activity.

Thus, Jackson's fundamental economic contention in this appeal, that he cannot recover damages for direct infringement from customer usage, is a problem entirely of his own making.

H. Jackson's Motion For Second Trial

Immediately after dismissing all customer suits and collecting from Glenayre all amounts awarded in the first trial, Jackson filed a Motion to Set Trial on Remaining Issues in the District Court claiming he was entitled to a second trial on indirect infringement. Jackson did not identify any new or different actions by Glenayre that would constitute contributory or inducement of infringement. The District Court denied Jackson's Motion for a Second Trial on June 29, 2004.

The District Court opinion found no issues remained to be tried because Jackson had received a "complete recovery" for Glenayre's infringement. The District Court found that Jackson's acceptance of the damage award created a "de facto license covering the sale of the infringing goods" which "legitimizes the sale of the infringing goods to Glenayre's customers." *Glenayre v. Jackson*, No. 02-CV-0256 (N.D. Ill. June 29, 2004 Judgment) (Appendix at 72a).

I. Jackson's Second Appeal

Jackson appealed the denial of his request for a second trial to the Federal Circuit. To support the argument that he had been lead to believe he would get a second trial, Jackson extensively relied on various rulings and statements made by the District Court before the first trial. Jackson also contended that he had not been fully compensated at the first trial because of several District Court rulings.

In a 2-1 decision, on April 11, 2006, the Federal Circuit affirmed the District Court. The Federal Circuit held that Jackson had not been mislead and had been fully compensated for Glenayre's infringing activities in the first trial. The Federal Circuit emphasized that, under the unique procedural posture of this case, Jackson could not collaterally challenge the prior judgment of the District Court which held that he was entitled to only $2,650,000 for that infringement.

Jackson's Petition inaccurately contends several times that the Federal Circuit was confused and "concluded that Jackson had been compensated for damages flowing from customers' use of the products." (Jackson's Petition at 7). The Federal Circuit carefully reviewed the District Court record and determined that, while at the first trial Jackson had sought a royalty base predicated on revenue from customer use, the remittitur order rejected that theory and found the appropriate measure of Jackson's royalty base was Glenayre's overall revenue from sales of the infringing product. (Opinion, Appendix at 20a-22a).

Jackson's Petition also inaccurately contends that the Federal Circuit was confused when it stated in a footnote that "[w]e do not read the district court's opinion to have granted the remittitur in order to exclude damages flowing from customer sales." (Appendix at 52a n.9). Jackson apparently believes the term "customer sales" means damages from "sales by Glenayre's customers" when, in the context of the opinion, the meaning is clearly damages from "sales by Glenayre to its customers." The latter meaning was what the Federal Circuit spent pages discussing as the proper royalty base, which belies Jackson's attempt to proffer the former meaning as what the majority meant in this footnote.

REASONS FOR DENYING THE PETITION

1. The Federal Circuit's Finding That As A Result Of The First Trial Jackson Received "Actual Damages For The Manufacture And Sale Of Infringing Devices" Fully Supports Its Holding That Jackson "As A Matter Of Law, Has Licensed The Use Of Those Products" And Thus Has No Right To A Second Trial.

Jackson's first argument is predicated on a distortion of what the Federal Circuit opinion said. The Federal Circuit did not sweepingly hold "as a matter of law that payment for damages for infringing manufacture includes 'full rights' and license for ensuing uses and users." (Jackson's Petition at 11). Rather, the Federal Circuit, after carefully reviewing the unusual facts raised by Jackson's appeal, found that Glenayre's payment and Jackson's acceptance of a $2.65 million judgment precluded Jackson from collaterally attacking the adequacy of that judgment in a later proceeding against Glenayre. Thus, the Federal Circuit properly held that, under the facts of this case, Jackson "as a matter of law" had licensed Glenayre's manufacturing and sale activity and could not pursue Glenayre for additional damages for that same activity.

It is important to note that Jackson's petition does *not* raise the issue of whether Jackson has any remaining direct claims against Glenayre's customers. Jackson cannot raise that issue because this proceeding only involves Glenayre's activities. Moreover, since Jackson has dismissed and cannot refile any suits against Glenayre's customers, direct infringement by customers will not arise in the future. Thus, the posture of this case presents the very narrow and very unlikely to be replicated issue of whether a manufacturer

who pays a judgment for direct infringement can be subsequently sued for indirect infringement based on the same activity. As fully explained in the Federal Circuit opinion the straightforward answer to that question is no.

Jackson's attempt to turn this narrow holding into a broader debate about whether "full rights" for ensuing users are created, grossly overstates what the Federal Circuit opinion actually addressed. Admittedly, the Federal Circuit spent many pages discussing and applying Supreme Court precedent, but in doing so it neither misinterpreted nor incorrectly applied the holdings of these cases to the facts of Jackson's case.

Jackson's Petition primarily focuses on the claim that the Federal Circuit decision contradicts the "full compensation formula" of the *Aro Mfg. Co. v. Conv. Top Replac. Co. ("Aro II")*, 377 U.S. 476 (1964) case. Jackson's criticism lacks merit for three reasons. First, as explained above, the Federal Circuit did not hold "as a matter of law" that all payments of damage by infringing manufacturers create license rights for ensuing users – only that Glenayre's payments in this case did. Second, while the Federal Circuit spent over a dozen pages explaining why Jackson was mistaken in relying on *Aro II* (*see* Opinion, Appendix at 35a-48a), Jackson makes no attempt to show any error in the Federal Circuit's analysis. Finally, the discussion of these Supreme Court cases at pages 11 to 16 of Jackson's Petition is literally a verbatim copy of his Petition for Rehearing, including the same typographical errors and inaccurate case citations. Recycling identical arguments already rejected by an appellate court has never been a proper basis for certiorari and, at a minimum, shows Jackson would not put adequate effort into proper presentation of the issues to this Court.

Jackson's cursory discussions of *Birdsell v. Shaliol*, 112 U.S. 485 (1894) and *Union Tool v. Wilson*, 259 U.S. 107 (1922) are equally flawed. Jackson's contention that the Federal Circuit misread *Birdsell* is easily rejected as both Jackson's petition and the Federal Circuit rely on the identical language from *Birdsell* that a bar to suit arises "only . . . when actual damages have been paid." (Jackson's Petition at 14; Opinion, Appendix at 29a; *Birdsell*, 112 U.S. at 489). Since Glenayre unquestionably paid "actual damages" the Federal Circuit correctly found a bar to further suit applied. Similarly, Jackson's petition offers no explanation for how the Federal Circuit misapplied *Union Tool*, which addressed the sale of spare parts for which no compensation had been paid. The Federal Circuit decision, after first quoting a lengthy verbatim passage, found that the facts of *Union Tool* were different than the facts of Jackson's appeal as Jackson had been paid compensation for the devices at issue. (Opinion, Appendix at 32a-34a). This critical fact, ignored by Jackson throughout this appeal, is why the Federal Circuit found Jackson could not obtain "a second bite at the apple." (Opinion, Appendix at 48a).

2. The Federal Circuit's Decision Does Not Let Customers Of A Manufacturer Escape Liability And Thus Leads To No Issue Of Exceptional National Significance.

Jackson, who voluntarily dismissed every suit he brought against Glenayre's customers, cannot legitimately complain about any customer escaping liability for infringing his patent. While Glenayre's customers have not been pursued for their use of Glenayre's infringing product, they escaped liability not because of anything said by the Federal Circuit, but because Jackson chose not to sue customers.

In a convoluted and confusing argument Jackson contends that the District Court and Federal Circuit decisions "virtually eliminate the concept of maintaining an action based [sic] the infringing 'use' of a product." (Jackson's Petition at 16). The Federal Circuit said nothing of the sort, and Jackson's hypothesis that this opinion provides a roadmap for a manufacturer to avoid significant damages by using a reseller is truly absurd.

Tellingly, Jackson does not cite a single passage from the Federal Circuit's decision to support his predictions about how resellers will be treated in future cases. The Federal Circuit decision simply did not address Jackson's hypothetical and certainly is not a precedent setting pronouncement that "virtually precludes patentees from being allowed to sue the ultimate customer or users of a product, when a manufacturer files an action for non-infringement against the patentee." (Jackson's Petition at 17). Rather the decision carefully reviewed a complicated procedural fact pattern in which Jackson's attempt to collect two judgments against Glenayre for the same manufacturing and sales activity was precluded. The opinion is silent on Jackson's ability to sue either resellers or customers.

In summary, Jackson's proposed roadmap for a manufacturer to insulate itself from liability is not based on anything said by the Federal Circuit. The Federal Circuit decision does nothing to insulate a manufacturer from liability except to acknowledge that a manufacturer who pays a first judgment is insulated from liability for paying a second judgment based on the same actions adjudicated in the first case. That finding certainly does not raise a question of exceptional national significance.

CONCLUSION

Jackson's Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit should be denied.

Respectfully submitted,

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